

## HONDURAS IMPROVES BUSINESS REGISTRATION TIME

*An October 2007 report from U.S. Embassy Tegucigalpa*

**Summary:** *CAFTA-DR, the Millennium Challenge Account, and the Doing Business Index -- a yearly report by the World Bank that ranks countries on the ease of doing business -- have spurred Honduras to reduce the number of days it takes to register a business. These improvements have reduced the time it takes to open a business from 62 days in 2005 to just 21 days today.*

### **CAFTA-DR Spurs Changes**

CAFTA was an integral factor in Honduras's decision to simplify the business registration process. Many officials and business community representatives have said that CAFTA-DR is the difference between whether or not an investor chooses to come to Honduras. But taking advantage of CAFTA seemed doubtful after a 2004 PriceWaterhouseCoopers study identified a six month delay to register a business through a "less than transparent" process.

In preparation for ratification of the treaty in April 2006, the previous administration of President Ricardo Maduro created the Technical Secretariat of the Committee for the Simplification of Business Administration (CSAE) to administer a new National Competitiveness Program in February 2005. At the time, the Supreme Court had responsibility for the National Business Registry, which unnecessarily complicated the process. With executive branch support, the Supreme Court voted to hand responsibility for the Registry to the Tegucigalpa Chamber of Commerce and 23 Property Institutes located throughout the country. The Tegucigalpa Chamber of Commerce is just the fourth Chamber of Commerce in Latin America to be given this important responsibility from the government.

According to FIDE, a Honduran business organization, the time needed to register a business has dropped 96 per cent, from 25 days in early 2005 to just one-two days in early 2007. A delegation from the Bogota Chamber of Commerce to the Tegucigalpa Chamber of Commerce hopes to implement software the Colombians have developed to automate the system. This is expected to result in even greater improvements. While registering a business still forms just one of nine steps needed to actually open a business, the Doing Business Index noted that the time to complete the process was reduced by 29 percent, from 62 to 44 days, from 2005-2006, the greatest progress of any

Central American country. Although CSAE and FIDE were expecting that due to further reductions in waiting time for operating permits this year's report would show that the time has been reduced even further, from 44 to just nine days, the Doing Business Index's report of 21 days (53%) for 2007 still represents a major improvement.

### *Millennium Challenge Corporation Pact Helped By Good Performance*

Honduras was the second country to qualify for MCC funds, formally implementing the pact in July 2005. This was quickly followed by the ratification of CAFTA-DR in April 2006. It was during this key period in 2005 that Honduras made the greatest progress of any Central American country in reducing the process time to open a business, from 62 to 44 days (29 percent). MCA-Honduras, the implementing agency for MCC, highlighted the continued reduction to just 9 days in their first quarter 2007 report as evidence that the GOH is maintaining good performance on the MCC selection criteria.

Minister of the Presidency Yani Rosenthal highlighted the role of this indicator in MCC and CAFTA negotiations. In a July meeting on competitiveness hosted by Ambassador as follow-up to the Americas Competitiveness Forum in Atlanta, Rosenthal cited the Doing Business Index as the key metric for quality of business regulation. He indicated that even before signing the MCC pact, the GOH was aware that such a reduction was part of the selection criteria and has continued to focus on improving the measure. MCC is currently working with Honduras on reforming their Real Estate Law, which according to Virgilio Umanzor of the Presidential Competitiveness Commission will facilitate greater access to credit for (and perhaps a rise in the creation of) small and medium enterprises.